

**Mason Public Schools
Mason, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Mason Public Schools
Mason, Michigan
BOARD OF EDUCATION
June 30, 2008

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Mason Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mason Public Schools
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mason Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

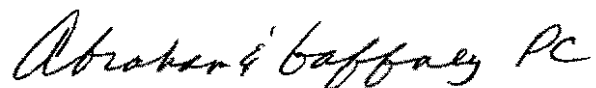
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2008 on our consideration of Mason Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 6, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

This section of Mason Public Schools District's (MPS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

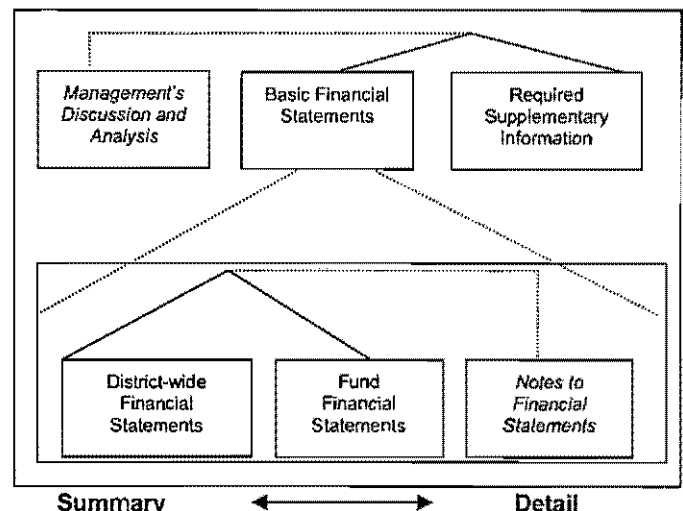
- The District's financial situation remained stable. Total net assets decreased slightly to \$18.3 million over the course of the year.
- Total District revenues exceeded \$31.3 million with spending around \$31.4 million. Overall revenues for 2007-08 increased by 1.6% while total district expenses increased 3.2%.
- Enrollment decreased by 58 students from 2006-2007 to 2007-2008, bringing the student blended enrollment to 3,046. This represents a decrease of less than 2%.
- The Sinking Fund has a balance of \$372,882 at June 30, 2008. The fund spent \$336,000 on capital needs in the District during 2007-08.
- The District's total fund balances decreased from \$4,650,000 at the end of fiscal year 2007 to about \$4,600,000 at the end of fiscal year 2008. The decrease is due mostly to a budgeted and planned decrease in General fund balance.
- The General fund's balance decreased by \$302,322 to about \$3 million at June 30, 2008, which was an improvement by about \$127,000 over the amount originally budgeted.
- During the 2007-08 fiscal year the District repaid \$1,711,534 of principal from its long-term debt while incurring no new debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic services* like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

**Figure A-1
Organization of Mason Public School's
Annual Financial Report**



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, MPS's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

DISTRICT-WIDE FINANCIAL STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities, as well as the quality of the education provided and the safety of the schools.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid foundation, and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The fund financial statements provide more detailed information about these funds, focusing on the most significant or "major" ones, not the District as a whole.

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as repaying its long-term debts, or to show that it is properly using certain revenues, such as school lunch and athletics.

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for certain assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's net assets decreased slightly from the previous year to \$18,317,265. The District's financial position is the product of many factors, as seen in the tables below that show the District's net assets as of June 30, 2007 and June 30, 2008 as well as the change in net assets for each year.

Table A-3 Mason Public Schools' Net Assets		
	June 30, 2008	June 30, 2007
Current and other assets	\$ 7,213,706	\$ 7,125,014
Capital assets	41,650,388	43,479,094
Total assets	48,864,094	50,604,108
Current liabilities	4,692,452	4,487,632
Long-term debt outstanding	25,854,377	27,642,610
Total liabilities	30,546,829	32,130,242
Net assets		
Invested in capital assets, net of related debt	14,828,750	14,945,922
Restricted	1,260,755	946,464
Unrestricted	2,227,760	2,581,480
Total net assets	\$ 18,317,265	\$ 18,473,866

Table A-4 Changes in Mason Public Schools' Net Assets		
	2007-2008	2006-2007
Revenues		
Program revenues		
Charges for services	\$ 1,871,600	\$ 1,719,035
Operating and Capital grants	2,725,691	2,400,721
General revenues		
Property taxes	6,711,323	6,136,013
State aid - unrestricted	17,990,796	18,453,511
Other	1,957,627	2,065,794
Total revenues	31,257,037	30,775,074
Expenses		
Instruction	15,259,357	14,934,727
Support services	10,173,259	9,922,832
Community services	340,658	365,366
Food services	1,382,624	1,320,345
Athletics	743,196	790,777
Interest on long-term debt	1,268,613	1,333,480
Unallocated depreciation	2,245,931	1,764,961
Total expenses	31,413,638	30,432,488
Change in net assets	\$ (156,601)	\$ 342,586

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

District Governmental Activities

The District's positive financial status is a result of the following actions:

- While student membership declined in 2007-2008, the District had anticipated this decline and so made necessary budget reductions to soften the impact.
- Several years ago, the Board of Education established the goal of maintaining 12% of expenditures as the District's General fund balance. Though that goal has not been reachable in recent years, due to various economic factors, the Board continues in its commitment to financial soundness.
- The District implemented a Sinking fund, approved by voters in 2007, to address on-going facility and grounds repair needs of the District on a proactive basis.
- The District's employees have been part of a total compensation method for determining wage and benefit packages. This has allowed the employees and administration to understand the various components to their compensation and work together to structure affordable packages.
- The District has wisely and consistently maintained quality offerings and programming while living within its means.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds balances. At year-end, its governmental funds reported combined fund balances of \$4,592,009.

The District's General fund had less revenues than expenditures in 2008, thereby contributing to the decrease in total fund balance. The reductions were an intentional use of fund balance either to continue existing programs or to maintain necessary staffing. Four of the six non-major funds ran a current-year deficit. The Special Revenue fund that includes the athletic program had expenditures that were \$6,883 above revenues because some unused resources from previous years were used this year to finance expenditures. The Food Service fund, 2004 Capital Projects Fund, and 2004 School Improvement Fund had expenditures that were \$33,581, \$95,523, and \$22,997 above revenues, respectively.

General Fund Budgetary Highlights

The District revised the annual operating budget in April 2008 to adjust for student counts, staff changes, and contract settlements and again in June 2008 to reflect the adjustments in expenditures throughout the year and the increase in funding from the Intermediate School District.

While the District's final budget for the General Fund projected that expenditures would exceed revenues by \$389,729, the actual results for the year was \$87,407 better, ending in a current-year deficit of \$302,322. That is to say, the General fund equity is healthier, by \$87,407, than anticipated.

Overall the change from the original Board adopted 2007-08 budget to year-end actual amounted to revenues that were \$736,221 (2.9%) and expenditures that were \$609,529 (2.4%) greater than the original budget. The significant changes in revenues were higher-than-anticipated property tax collections and greater-than-expected state and federal grants.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2008, the District had invested over \$41 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment, machinery and transportation equipment. This amount represents a net decrease of around \$1.8 million from the last year. This decrease is directly related to the completion of the 2004 Bond project that incurred current year depreciation in 2007-2008. (More detailed information about capital assets can be found in Note C to the financial statements.) Total depreciation expense for the year was approximately \$2.2 million.

Table A-5 Mason Public Schools' Capital Assets <i>(in millions)</i>		
	<u>2008</u>	<u>2007</u>
Land	\$ 0.2	\$ 0.2
Buildings and additions	54.1	42.1
Equipment and furniture	12.0	12.0
Transportation equipment	1.6	1.6
Other capital equipment	0.8	0.8
Construction in progress	-	11.7
Subtotal	68.7	68.4
Accumulated depreciation	(27.1)	(24.9)
Net capital assets	<u>\$ 41.6</u>	<u>\$ 43.5</u>

The District expects to spend, in 2008-09, most of the anticipated \$625,000 in Sinking fund revenues it will receive from taxpayers for capital improvements. These include roof replacements, parking lot repaves, lockers and carpet replacements, and classroom renovations district-wide.

Long-term Debt

At year-end the District had \$27,649,211 million in general obligation bonds and other long-term debt outstanding - a decrease of 5.9 percent from last year. (More detailed information about the District's long-term liabilities is presented in Note D to the financial statements.)

The District paid \$1,766,802 in principal payments during 2007-08 while incurring no new debt.

Table A-6 MPS's Outstanding Long-Term Debt <i>(in millions of dollars)</i>		
	<u>2008</u>	<u>2007</u>
General obligation debts		
(financed with property taxes)	\$ 26.4	\$ 28.0
Other	<u>1.3</u>	<u>1.4</u>
Total	<u>\$ 27.7</u>	<u>\$ 29.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The 2008-2009 General fund budget, approved by the Board on June 9, 2008, anticipated per-pupil state funding of \$140. The State School Aid Act, passed after that date, gives the Mason Public Schools \$112 per pupil.
- Student enrollment is projected to decrease by about 30 in 2008-09, impacting our blended count by about 40. The fourth Wednesday count in September 2008, will determine the actual numbers, which directly impact State Aid.
- Actions taking place in 2008-09 include the first steps in the phasing-out of one elementary building, an increase in student and adult meal prices, reductions in the athletics budgets, a reduction in the number of new computers purchased, no bus purchases, a reduction in textbook purchases, and a reduction in support staff.
- Fuel, utilities, and health insurance costs continue to be reviewed for cost-saving opportunities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact James A. Lockwood, the Director of Finance, Mason Public Schools, 118 West Oak Street, Mason, Michigan 48854.

BASIC FINANCIAL STATEMENTS

Mason Public Schools

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,014,688
Investments	986,830
Accounts receivable	62,874
Due from other governmental units	3,784,189
Inventories	22,226
Prepays	342,899
Total current assets	7,213,706
Noncurrent assets	
Capital assets not being depreciated	175,551
Capital assets, net of accumulated depreciation	41,474,837
Total noncurrent assets	41,650,388
TOTAL ASSETS	48,864,094
LIABILITIES	
Current liabilities	
Accounts payable	253,324
Accrued payroll	1,560,766
Other accrued liabilities	796,909
Accrued interest payable	203,147
Unearned revenue	10,698
Current portion of accrued severance pay	90,000
Current portion of long-term debt	1,777,608
Total current liabilities	4,692,452
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	72,774
Accrued severance pay	737,573
Noncurrent portion of long-term debt	25,044,030
Total noncurrent liabilities	25,854,377
TOTAL LIABILITIES	30,546,829
NET ASSETS	
Invested in capital assets, net of related debt	14,828,750
Restricted for debt service	887,873
Restricted for sinking fund	372,882
Unrestricted	2,227,760
TOTAL NET ASSETS	\$ 18,317,265

See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Governmental activities Function/Program	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
Instruction	\$ 15,259,357	\$ 364,422	\$ 2,176,086	\$ 90,364	\$ (12,628,485)
Supporting services	10,173,259	8,068	-	-	(10,165,191)
Community services	340,658	321,342	-	-	(19,316)
Food Service	1,382,624	918,773	459,241	-	(4,610)
Athletics	743,196	258,995	-	-	(484,201)
Interest and costs on long-term debt	1,268,613	-	-	-	(1,268,613)
Unallocated depreciation	2,245,931	-	-	-	(2,245,931)
TOTAL	\$ 31,413,638	\$ 1,871,600	\$ 2,635,327	\$ 90,364	(26,816,347)
General revenues					
Property taxes levied for general purposes					3,446,767
Property taxes levied for sinking fund					529,565
Property taxes levied for debt service					2,734,991
State school aid - unrestricted					17,990,796
Investment earnings					134,935
Special education county allocation					1,801,089
Miscellaneous					21,603
TOTAL GENERAL REVENUES					26,659,746
CHANGE IN NET ASSETS					(156,601)
Net assets, beginning of year					18,473,866
Net assets, end of year					\$ 18,317,265

See accompanying notes to financial statements.

Mason Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	2004 Debt Retirement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,320,893	\$ 166,654	\$ 527,141	\$ 2,014,688
Investments	-	986,830	-	986,830
Accounts receivable	35,756	-	27,118	62,874
Due from other funds	22,604	-	13,602	36,206
Due from other governmental units	3,747,428	21,434	15,327	3,784,189
Inventories	5,207	-	17,019	22,226
Prepays	341,594	-	1,305	342,899
TOTAL ASSETS	\$ 5,473,482	\$ 1,174,918	\$ 601,512	\$ 7,249,912
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 119,250	\$ -	\$ 134,074	\$ 253,324
Accrued payroll	1,553,152	-	7,614	1,560,766
Other accrued liabilities	794,180	-	2,729	796,909
Due to other funds	-	11,216	24,990	36,206
Deferred revenue	1,010	-	9,688	10,698
TOTAL LIABILITIES	2,467,592	11,216	179,095	2,657,903
FUND BALANCES				
Reserved for				
Inventories and prepaids	346,801	-	18,324	365,125
Debt service	-	1,163,702	92	1,163,794
Unreserved				
Designated for				
Debt service	89,914	-	-	89,914
Capital projects	-	-	372,882	372,882
Subsequent year's expenditures	390,707	-	10,309	401,016
Undesignated, reported in				
General fund	2,178,468	-	-	2,178,468
Special revenue funds	-	-	20,810	20,810
TOTAL FUND BALANCES	3,005,890	1,163,702	422,417	4,592,009
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,473,482	\$ 1,174,918	\$ 601,512	\$ 7,249,912

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds **\$ 4,592,009**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 68,779,432	
Accumulated depreciation is	<u>(27,129,044)</u>	
		41,650,388

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	(26,821,638)	
Accrued interest payable	(275,921)	
Severance pay	<u>(827,573)</u>	
		<u>(27,925,132)</u>

Net assets of governmental activities	<u>\$ 18,317,265</u>
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See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	2004 Debt Retirement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 4,204,718	\$ 2,789,903	\$ 1,836,393	\$ 8,831,014
State sources	19,397,571	-	64,612	19,462,183
Federal sources	754,047	-	394,629	1,148,676
TOTAL REVENUES	24,356,336	2,789,903	2,295,634	29,441,873
EXPENDITURES				
Current				
Instruction	15,260,193	-	-	15,260,193
Supporting services	10,173,259	-	-	10,173,259
Community services	340,658	-	-	340,658
Food service	-	-	1,382,624	1,382,624
Athletics	-	-	743,196	743,196
Debt service	72,924	2,727,566	177,188	2,977,678
Capital outlay	-	-	434,090	434,090
TOTAL EXPENDITURES	25,847,034	2,727,566	2,737,098	31,311,698
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,490,698)	62,337	(441,464)	(1,869,825)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	30,000	-	676,841	706,841
County special education allocation	1,801,089	-	-	1,801,089
Payments from other districts	6,840	-	-	6,840
Other transactions	7,235	-	-	7,235
Transfers to other funds	(653,748)	-	(53,093)	(706,841)
Payments to other districts	(3,040)	-	-	(3,040)
TOTAL OTHER FINANCING SOURCES (USES)	1,188,376	-0-	623,748	1,812,124
NET CHANGE IN FUND BALANCES	(302,322)	62,337	182,284	(57,701)
Fund balances, beginning of year	3,308,212	1,101,365	240,133	4,649,710
Fund balances, end of year	<u>\$ 3,005,890</u>	<u>\$ 1,163,702</u>	<u>\$ 422,417</u>	<u>\$ 4,592,009</u>

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (57,701)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 417,225	
Depreciation expense	<u>(2,245,931)</u>	
Excess of depreciation expense over capital outlay		(1,828,706)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement	1,711,534
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(2,469)	
Decrease in accrued severance pay	<u>20,741</u>	
		<u>18,272</u>

Change in net assets of governmental activities	<u><u>\$ (156,601)</u></u>
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See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash	\$ 8,292	\$ 256,507
Investments	29,462	-
TOTAL ASSETS	<u>\$ 37,754</u>	<u>\$ 256,507</u>
LIABILITIES		
Accounts payable	\$ -	\$ 27,460
Accrued other liabilities	-	3,274
Due to individuals and agencies	-	225,773
TOTAL LIABILITIES	-0-	<u>\$ 256,507</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 37,754</u>	

See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	\$ 1,316
DEDUCTIONS	
Scholarships awarded	<u>4,096</u>
CHANGE IN NET ASSETS	(2,780)
Net assets - beginning of year	<u>40,534</u>
Net assets - end of year	<u><u>\$ 37,754</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mason Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Mason Public Schools. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. 2004 Debt Retirement - The 2004 Debt Retirement fund is used to account for financial resources used for the retirement of long-term debt of governmental funds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General fund and all Special Revenue funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 9, 2008.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and money market accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit with average maturities of greater than 90 days. Investments are recorded at market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Service Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2008 to be paid in July and August 2008. Of the total amount of \$3,784,189 due from other governmental units, \$3,504,021 consists of State Aid and the remaining \$280,168 is from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**10. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	10 - 40 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, summer school lunch, recreational programs, and industrial facilities taxes are also deferred. These same amounts have been shown as "unearned revenue" on the Statement of Net Assets to indicate that the revenue has not been recognized because it has not been earned.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003, 2004, 2005, 2007, 2008, and a portion of the payment that is due May 15, 2009, is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2012.

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$17.9856 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$1.00 and \$4.20 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for sinking fund and debt service, respectively. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

16. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through ten (10) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

17. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

18. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total County wide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

19. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

20. Reserved/Designated Fund Balance

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

21. Restrictions of Net Assets

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

22. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

23. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the District's deposits was \$1,588,976 and the bank balance was \$2,136,040 of which \$279,652 was covered by Federal depository insurance. The balance of \$1,856,388 was uninsured and uncollateralized.

Investments

As of June 30, 2008, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MBIA - Michigan Class	<u>\$ 1,705,895</u>	<u>\$ 1,705,895</u>	N/A

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investment which is the MBIA - Michigan Class is not rated.

Interest rate risk

The District has not adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has not adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

As of June 30, 2008, the District's deposits and investments were reported in the financial statements in the following categories:

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,014,688	\$ 264,799	\$ 2,279,487
Investments	<u>986,830</u>	<u>29,462</u>	<u>1,016,292</u>
	<u>\$ 3,001,518</u>	<u>\$ 294,261</u>	<u>\$ 3,295,779</u>

The District had \$908 of cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 175,551	\$ -	\$ -	\$ 175,551
Construction in progress	<u>11,724,363</u>	<u>80,116</u>	<u>(11,804,479)</u>	<u>-0-</u>
Total capital assets not being depreciated	11,899,914	80,116	(11,804,479)	175,551
Capital assets being depreciated				
Buildings and additions	42,146,489	11,982,990	-	54,129,479
Equipment and furniture	11,983,279	84,831	(31,395)	12,036,715
Vehicles	1,564,029	73,767	-	1,637,796
Other capital equipment	<u>799,891</u>	<u>-</u>	<u>-</u>	<u>799,891</u>
Subtotal capital assets being depreciated	56,493,688	12,141,588	(31,395)	68,603,881
Less accumulated depreciation for:				
Buildings and additions	(15,600,722)	(1,433,009)	-	(17,033,731)
Equipment and furniture	(7,586,811)	(671,478)	31,395	(8,226,894)
Vehicles	(1,054,878)	(126,312)	-	(1,181,190)
Other capital equipment	<u>(672,097)</u>	<u>(15,132)</u>	<u>-</u>	<u>(687,229)</u>
Subtotal	<u>(24,914,508)</u>	<u>(2,245,931)</u>	<u>31,395</u>	<u>(27,129,044)</u>
Net capital assets being depreciated	<u>31,579,180</u>	<u>9,895,657</u>	<u>-0-</u>	<u>41,474,837</u>
Capital assets, net	<u>\$ 43,479,094</u>	<u>\$ 9,975,773</u>	<u>\$(11,804,479)</u>	<u>\$ 41,650,388</u>

Total depreciation expense of \$2,245,931 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
1998 Durant Resolution Bonds	\$ 366,724	\$ -	\$ -	\$ 366,724	\$ 34,565
Capital lease	100,979	-	29,554	71,425	29,554
Installment loan - 2005	55,469	-	36,980	18,489	18,489
2004 Refunding and General Obligation Bonds	26,765,000	-	1,510,000	25,255,000	1,555,000
2004 School Improvement Bonds	1,245,000	-	135,000	1,110,000	140,000
Severance pay	848,314	34,527	55,268	827,573	90,000
	<u>\$29,381,486</u>	<u>\$ 34,527</u>	<u>\$ 1,766,802</u>	<u>\$27,649,211</u>	<u>\$ 1,867,608</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Advanced Refunding - Prior

The District defeased the 1995 School Building and Site General Obligation Bonds, which are due and payable May 1, 2006 through May 1, 2021. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2004 Refunding and General Obligation Bonds in the amount of \$29,555,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay the remaining balances of the 1995 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2008, bonds due and payable through May 1, 2021 for 1995 School Building and Site General Obligation Bonds in the amount of \$15,675,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2008:

\$1,500,000 School Improvement Bonds dated September 1, 2004, due in annual installments ranging from \$140,000 to \$180,000 through May 1, 2015 with interest ranging from 3.10 to 3.80 percent, payable semi-annually.	\$ 1,110,000
\$29,555,000 Refunding and General Obligation Bonds dated August 3, 2004, due in annual installments ranging from \$750,000 to \$2,000,000 through May 1, 2024 with interest ranging from 3.25 to 5.25 percent, payable semi-annually.	<u>25,255,000</u>
	<u>\$ 26,365,000</u>

Resolution Bonds

\$621,081 1998 Durant Resolution Bonds dated November 15, 1998 has been revised as of May 10, 2007. It is due in annual installments from \$34,565 to \$216,388, with interest of 4.7615353 percent, payable annually starting from 2009 to 2013. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 366,724</u>
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Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT - CONTINUED

Installment Loan

\$147,918 Installment Purchase Agreement dated July 27, 2004, due in semi-annual installments of \$18,490 through July 22, 2008 with interest at 3.59 percent, payable semi-annually.

\$ 18,489

Capital Lease

The District has entered into a lease purchase agreement, to purchase equipment with a cost of \$206,881, which qualifies as a capital lease for accounting purposes (title transfers to District) and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the lease.

\$206,881 Technology Infrastructure capital lease payable dated October 22, 2003, due in monthly installments of \$2,913 through December 11, 2010 with interest of 4.90 percent, payable monthly.

\$ 71,425

Annual Requirements for Bonded Debt, Installment Loans, and Capital Lease

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 34,565	\$ 9,050	\$ 1,695,000	\$ 1,210,435	\$ 18,489	\$ 332
2010	36,209	7,404	1,720,000	1,155,557	-	-
2011	37,934	5,680	1,775,000	1,095,938	-	-
2012	216,387	76,649	1,835,000	1,026,137	-	-
2013	41,629	1,982	1,865,000	953,777	-	-
2014-2018	-	-	9,375,000	3,512,573	-	-
2019-2023	-	-	7,350,000	1,129,500	-	-
2024	-	-	750,000	37,500	-	-
	<u>\$ 366,724</u>	<u>\$ 100,765</u>	<u>\$26,365,000</u>	<u>\$10,121,417</u>	<u>\$ 18,489</u>	<u>\$ 332</u>

Capital Lease

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2009	\$ 29,554	\$ 5,400
2010	29,554	5,400
2011	<u>12,317</u>	<u>2,251</u>
	<u>\$ 71,425</u>	<u>\$ 13,051</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Mason Public Schools in the future.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT - CONTINUED**Severance Pay**

In recognition of services to the District, a severance payment is made to eligible employees with at least five (5) or ten (10) years of service according to their respective employment contracts.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2008, which has been recorded in the District-wide financial statements, is as follows:

Severance pay	\$ 808,676
Payroll taxes	<u>18,897</u>
	<u>\$ 827,573</u>

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008 are as follows:

Due to General Fund from:	
2004 Debt Retirement Fund	\$ 11,216
Nonmajor governmental funds	<u>11,388</u>
	<u>\$ 22,604</u>
Due to Nonmajor governmental funds from:	
Other nonmajor governmental funds	<u>\$ 7,501</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	<u>\$ 30,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	653,748
Nonmajor governmental funds	<u>23,093</u>
	<u>\$ 676,841</u>

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008 was \$16,208,998 of which \$12,334,266 was for members who have elected the MIP option; the District's total payroll was \$16,290,012.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008 the District was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 482,176	\$ 2,741,192	\$ 3,223,368
2007	456,011	2,774,898	3,230,909
2006	460,370	2,640,732	3,101,102

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	3.9 %	16.9 %
2007	4.0	17.5
2006	3.9	16.1

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The District's budgeted expenditures in the General Fund has been adopted at the functional classification level and at the fund level for the Special Revenue Funds.

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
Added needs	\$ 2,660,512	\$ 2,670,540	\$ 10,028
School administration	1,697,549	1,701,337	3,788
Operations and maintenance	2,808,934	2,848,425	39,491
Community recreation	109,021	114,433	5,412
Childcare	98,033	104,041	6,008
Transfers to other funds	650,999	653,748	2,749
Payments to other districts	-	3,040	3,040
Athletics	724,131	743,196	19,065

NOTE I: FLEXIBLE BENEFITS PLAN

In May 2002, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by a third party administrator.

NOTE J: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: RISK MANAGEMENT - CONTINUED

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Mason Public Schools, a nonplaintiff District, was awarded \$1,242,162 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE L: BONDED CONSTRUCTION FUNDS

The Capital Project Funds of the District include the capital projects activities funded in part by the 2004 Refunding and General Obligation Bonds. The remaining funding for the activities recorded within the various Capital Project Funds is funded by a voted millage for the Sinking Fund as well as local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Funds, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years. The following is a summary of the revenues and expenditures in the Capital Projects Fund from the inception of the fund as it relates to the bond issues through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2008.

	2004 <u>Capital Projects</u>	<u>Sinking Fund</u>	<u>Total</u>
Revenues	<u>\$31,130,205</u>	<u>\$ 677,214</u>	<u>\$31,807,419</u>
Expenditures	<u>\$31,130,205</u>	<u>\$ 336,007</u>	<u>\$31,466,212</u>

REQUIRED SUPPLEMENTARY INFORMATION

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 4,018,619	\$ 4,123,343	\$ 4,204,718	\$ 81,375
State sources	18,866,327	19,414,997	19,397,571	(17,426)
Federal sources	671,127	757,266	754,047	(3,219)
TOTAL REVENUES	23,556,073	24,295,606	24,356,336	60,730
EXPENDITURES				
Current				
Instruction				
Basic programs	12,495,534	12,619,654	12,589,653	30,001
Added needs	2,658,297	2,660,512	2,670,540	(10,028)
Total instruction	15,153,831	15,280,166	15,260,193	19,973
Supporting services				
Student services	1,961,481	1,949,410	1,948,207	1,203
Instructional staff	978,295	1,040,832	1,036,945	3,887
General administration	308,173	312,094	306,430	5,664
School administration	1,674,915	1,697,549	1,701,337	(3,788)
Business and fiscal services	319,860	341,479	335,509	5,970
Operations and maintenance	2,578,706	2,808,934	2,848,425	(39,491)
Transportation	1,145,616	1,079,465	1,070,288	9,177
Other supporting services	794,427	946,399	926,118	20,281
Total supporting services	9,761,473	10,176,162	10,173,259	2,903
Community services				
Community recreation	82,070	109,021	114,433	(5,412)
Childcare	98,106	98,033	104,041	(6,008)
Community services office	124,052	123,310	122,184	1,126
Total community services	304,228	330,364	340,658	(10,294)
Debt service	73,594	73,594	72,924	670
TOTAL EXPENDITURES	25,293,126	25,860,286	25,847,034	13,252
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,737,053)	(1,564,680)	(1,490,698)	73,982

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	\$ 50,000	\$ 50,000	\$ 30,000	\$ (20,000)
County special education allocation	1,825,929	1,759,250	1,801,089	41,839
Payments from other districts	20,277	15,000	6,840	(8,160)
Other transactions	13,000	1,700	7,235	5,535
Transfers to other funds	(601,167)	(650,999)	(653,748)	(2,749)
Payments to other districts	-	-	(3,040)	(3,040)
TOTAL OTHER FINANCING SOURCES (USES)	1,308,039	1,174,951	1,188,376	13,425
NET CHANGE IN FUND BALANCE	(429,014)	(389,729)	(302,322)	87,407
Fund balance, beginning of year	3,308,212	3,308,212	3,308,212	-0-
Fund balance, end of year	<u>\$ 2,879,198</u>	<u>\$ 2,918,483</u>	<u>\$ 3,005,890</u>	<u>\$ 87,407</u>

OTHER SUPPLEMENTARY INFORMATION

Mason Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue Funds		Debt Service Fund
	Food Service	Athletics	2004 School Improvement
ASSETS			
Cash and cash equivalents	\$ 27,475	\$ 31,599	\$ 92
Accounts receivable	-	-	-
Due from other funds	-	-	-
Due from other governmental units	10,275	-	-
Inventories	17,019	-	-
Prepays	74	1,231	-
TOTAL ASSETS	\$ 54,843	\$ 32,830	\$ 92
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 166	\$ 28	\$ -
Accrued payroll	1,431	6,183	-
Other accrued liabilities	-	2,729	-
Due to other funds	-	18,005	-
Deferred revenue	9,688	-	-
TOTAL LIABILITIES	11,285	26,945	-0-
FUND BALANCES			
Reserved for			
Inventories and prepaids	17,093	1,231	-
Debt service	-	-	92
Unreserved			
Designated for			
Capital projects	-	-	-
Subsequent year's expenditures	5,655	4,654	-
Undesignated, reported in			
Special revenue funds	20,810	-	-
TOTAL FUND BALANCES	43,558	5,885	92
TOTAL LIABILITIES AND FUND BALANCES	\$ 54,843	\$ 32,830	\$ 92

Capital Project Funds

Sinking Fund	2004 Capital Projects	2004 School Improvement	Total
\$ 467,975	\$ -	\$ -	\$ 527,141
27,118	-	-	27,118
7,501	6,101	-	13,602
5,052	-	-	15,327
-	-	-	17,019
-	-	-	1,305
<u>\$ 507,646</u>	<u>\$ 6,101</u>	<u>\$ -0-</u>	<u>\$ 601,512</u>
\$ 127,779	\$ 6,101	\$ -	\$ 134,074
-	-	-	7,614
-	-	-	2,729
6,985	-	-	24,990
-	-	-	9,688
134,764	6,101	-0-	179,095
-	-	-	18,324
-	-	-	92
372,882	-	-	372,882
-	-	-	10,309
-	-	-	20,810
372,882	-0-	-0-	422,417
<u>\$ 507,646</u>	<u>\$ 6,101</u>	<u>\$ -0-</u>	<u>\$ 601,512</u>

Mason Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Fund
	Food Service	Athletics	2004 School Improvement
REVENUES			
Local sources	\$ 919,802	\$ 259,812	\$ 2
State sources	64,612	-	-
Federal sources	394,629	-	-
TOTAL REVENUES	1,379,043	259,812	2
EXPENDITURES			
Current			
Food service	1,382,624	-	-
Athletics	-	743,196	-
Debt service	-	-	177,188
Capital outlay	-	-	-
TOTAL EXPENDITURES	1,382,624	743,196	177,188
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,581)	(483,384)	(177,186)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	476,501	177,247
Transfers to other funds	(30,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(30,000)	476,501	177,247
NET CHANGE IN FUND BALANCES	(33,581)	(6,883)	61
Fund balances, beginning of year	77,139	12,768	31
Fund balances, end of year	<u>\$ 43,558</u>	<u>\$ 5,885</u>	<u>\$ 92</u>

Capital Project Funds

Sinking Fund	2004 Capital Projects	2004 School Improvement	Total
\$ 654,121	\$ 2,294	\$ 362	\$ 1,836,393
-	-	-	64,612
-	-	-	394,629
654,121	2,294	362	2,295,634
-	-	-	1,382,624
-	-	-	743,196
-	-	-	177,188
336,007	80,116	17,967	434,090
336,007	80,116	17,967	2,737,098
318,114	(77,822)	(17,605)	(441,464)
23,093	-	-	676,841
-	(17,701)	(5,392)	(53,093)
23,093	(17,701)	(5,392)	623,748
341,207	(95,523)	(22,997)	182,284
31,675	95,523	22,997	240,133
\$ 372,882	\$ -0-	\$ -0-	\$ 422,417

Mason Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

Mason Public Schools

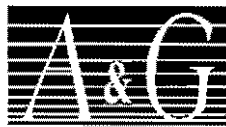
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Mason Public Schools
Mason, Michigan

Compliance

We have audited the compliance of Mason Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major Federal programs for the year ended June 30, 2008. Mason Public Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs are the responsibility of Mason Public Schools' management. Our responsibility is to express an opinion on Mason Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Mason Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mason Public Schools' compliance with those requirements.

In our opinion, Mason Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ending June 30, 2008.

Internal Control Over Compliance

The management of Mason Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Mason Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mason Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 6, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Mason Public Schools, others within the District, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 6, 2008

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
Title I	84.010		
2006-07 Regular - Part A		0715300607	\$ 87,272
2007-08 Regular - Part A		0815300708	<u>103,081</u>
			190,353
Title V	84.298		
2006-07		0702500607	638
2007-08		0802500708	<u>630</u>
			1,268
Title II, Part D	84.318		
2006-07		0742900607	888
2007-08		0842900708	<u>969</u>
			1,857
Improving Teacher Quality	84.367		
2006-07 Title IIA		0705200607	84,057
2007-08 Title IIA		0805200708	<u>85,081</u>
			169,138
Passed Through State Department of Education and Ingham Intermediate School District			
Special Education 94-142			
Flow Through - IDEA	84.027 (e)(g)		
2006-07 Regular		0704500607	384,693
2007-08 Regular		0804500708	<u>400,000</u>
			784,693
Preschool - IDEA	84.173 (e)(g)		
2006-07		0704600607	17,228
2007-08		0804600708	<u>15,505</u>
			<u>32,733</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,180,042

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2007</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2008</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 87,272	\$ 37,958	\$ 37,958	\$ -	\$ -0-
-	-	103,081	103,081	-0-
87,272	37,958	141,039	103,081	-0-
638	638	638	-	-0-
-	-	630	630	-0-
638	638	1,268	630	-0-
888	888	888	-	-0-
-	-	-	969	969
888	888	888	969	969
84,057	25,227	25,227	-	-0-
-	-	35,420	75,430	40,010
84,057	25,227	60,647	75,430	40,010
384,693	120,795	120,795	-	-0-
-	-	276,934	400,000	123,066
384,693	120,795	397,729	400,000	123,066
17,228	6,123	6,123	-	-0-
-	-	10,510	15,505	4,995
17,228	6,123	16,633	15,505	4,995
574,776	191,629	618,204	595,615	169,040

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553 (e)(f)		
2006-07		071970	\$ 35,025
2007-08		081970	<u>37,269</u>
			72,294
National School Lunch Program	10.555 (e)(f)		
2006-07		071950, 071960	270,297
2007-08		081950, 081960	<u>254,775</u>
			525,072
Food Donation	10.550		
Entitlement commodities		33130	<u>67,637</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			665,003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through State Department of Human Services and Ingham Intermediate School District			
Medicaid Assistance Program			
Title XIX			
Outreach			
2007-08	93.778	33130	<u>32,322</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,877,367</u>

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2007</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2008</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 31,303	\$ -	\$ 3,722	\$ 3,722	\$ -0-
-	-	37,269	37,269	-0-
31,303	-0-	40,991	40,991	-0-
239,071	-	31,226	31,226	-0-
-	-	254,775	254,775	-0-
239,071	-0-	286,001	286,001	-0-
-	-	67,637	67,637 (a)(c)	-0-
270,374	-0-	394,629	394,629	-0-
-	-	22,552	32,322	9,770
<u>\$ 845,150</u>	<u>\$ 191,629</u>	<u>\$ 1,035,385</u>	<u>\$ 1,022,566</u>	<u>\$ 178,810</u>
		(d)	(b)	

Mason Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Mason Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Denotes programs required to be clustered by the United States Department of Education.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2008 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues from Federal sources per financial statements.	\$ 754,047	\$ 394,629	\$ 1,148,676
<u>Less:</u> Medical services portion of the Medicaid School Based Services program which is not subject to the Single Audit Act	(126,110)	-	(126,110)
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 627,937</u>	<u>\$ 394,629</u>	<u>\$ 1,022,566</u>

Principals

Dale J. Abraham, CPA
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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Mason Public Schools
Mason, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2008, which collectively comprise Mason Public Schools' basic financial statements and have issued our report thereon dated October 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mason Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mason Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described as finding 2008-1 in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

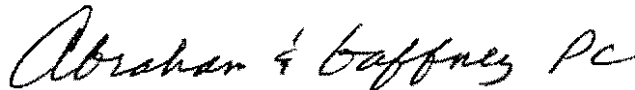
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that finding 2008-1 described in the Schedule of Findings is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or an other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as a finding 2008-2.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of Mason Public Schools, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 6, 2008

Mason Public Schools
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
10.533, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2008-1 Material Journal Entries Proposed by Auditors

Condition: Material journal entries for accounts payable, cash, interfund transactions, and bond principal and interest expenditures were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2008

Section II - Financial Statement Findings - continued

2008-1 Material Journal Entries Proposed by Auditors - continued

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the District's internal controls.

Recommendation: We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The District's bookkeeper, who was new to the District just prior to this audit, will be better prepared for the 2008-09 audit. The Director of Finance and the bookkeeper will have all material journal entries prepared in advance of the auditors' visit.

2008-2 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and Athletics Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Athletics Fund.

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978, as amended) requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District is not in compliance with the Uniform Budgeting and Accounting Act.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Director of Finance will be presenting amended budgets to the Board more frequently in 2008-09, thereby watching all budgets more closely.

Section III - Federal Award Findings and Questioned Costs

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2007-1 Preparation of Financial Statements in Accordance with GAAP

Condition: As part of the audit process, the District, as well as most governments, have historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. Under recent auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Resolution: The Director of Finance attended training classes during the year and we now believe the applicable internal controls are in place. We consider this issue resolved.

2007-2 Segregation of Duties

Condition: During our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee in the business office had access to all aspects of the accounts payable cycle, is responsible for maintenance of the general ledger, performs bank reconciliations, and processes ACH transactions.

Resolution: Changes were made in the Business Office to insert some key internal controls so that no one employee has unrestricted access to a given transaction cycle. We consider this issue resolved.

2007-3 Fraud Risk Management Program

Condition: The District had not adopted a formal fraud risk management program.

Resolution: The District adopted the applicable policy during the year. We consider the issue resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2007-4 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, Food Service Fund, and Athletics Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund, Food Service Fund, and Athletics Fund.

Resolution: This issue is evaluated each year. We consider this issue resolved for the year ended June 30, 2007.

2007-5 Bond Audit Not Completed Within 120 Days

Condition: During our audit for 2004 Bond Project, it was noted that the District is not in compliance with the required time period for the completion of bonded construction project audit. The audit of the bonded construction project was not completed within 120 days after completion of all projects financed by the proceeds of the bonds. The District was provided with a certificate of substantial completion on the project by the contractor, but did not notify the independent auditors within the required time frame in order for them to conduct the fieldwork within the 120 days.

Resolution: A Bond Audit was not necessary for the current year. We consider this issue resolved.

Mason Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.